

Financial Statements

**Monroe Community
Mental Health Authority**

September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Monroe Community Mental Health Authority	County Monroe
Audit Date 9/30/04	Opinion Date 12/3/04	Date Accountant Report Submitted to State: 3/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue		City Alma	State MI
Accountant Signature <i>W. P. G. - CPA</i>		ZIP 48801	Date 3/30/05

Monroe Community Mental Health Authority
Table of Contents
September 30, 2004

FINANCIAL SECTION

Independent Auditor's Report

Management's Discussion and Analysis I - V

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets	1
Statement of Activities	2

Fund Financial Statements:

Balance Sheet – Governmental Funds	3
------------------------------------	---

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
-----------------------------------------------------------------------------------------------------------------------------------------------------------	---

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5 - 6
------------------------------------------------------------------------------------------	-------

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
---------------------------------------------------------------------------------------------------------------------------------------------------	---

Statement of Net Assets – Proprietary Funds	8
---------------------------------------------	---

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	9
---------------------------------------------------------------------------------------	---

Statement of Cash Flows – Proprietary Funds	10
---------------------------------------------	----

Statement of Fiduciary Net Assets	11
-----------------------------------	----

Statement of Changes in Fiduciary Net Assets	12
----------------------------------------------	----

Notes to the Financial Statements	13 – 26
-----------------------------------	---------

Monroe Community Mental Health Authority
Table of Contents
September 30, 2004

Required Supplemental Information:	
Budgetary Comparison Schedules	27 - 28
Other Supplemental Information:	
Individual Fund Statements:	
General Fund – Statement of Expenditures	29 – 30
Government Auditing Standards Report	31 - 32



INDEPENDENT AUDITOR'S REPORT

Monroe Community Mental Health Authority
Monroe, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Monroe Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-V, and budgetary comparison information on pages 27 - 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 3, 2004

MANAGEMENT'S DISCUSSION and ANALYSIS

**Monroe Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis**

The management of Monroe Community Mental Health Authority (MCMHA) presents the following overview and analysis of financial activities during fiscal year 2003/2004.

Financial Highlights

- MCMHA's total net assets decreased \$111,758 over the course of the fiscal year's operations.
- MCMHA received \$23,859,905 in revenue for Fiscal year 2004, of which \$17,657,393 was in Medicaid revenue, \$4,408,013 in General Fund revenue, \$997,803 in County Appropriations, \$423,988 in Grant Revenue, and \$372,708 in interest and earned revenue.
- MCMHA's expenses in Fiscal year 2004 were \$23,508,299, of which \$8,258,123 was for wages and benefits and \$15,197,688 was for operating expenses, \$46,522 was for capital outlay expenses, and \$5,966 was for debt service.

MCMHA's budget changes highlights.

- Less Medicaid funding was received than was budgeted.
 1. Regional intensity factor started in January 04.
 2. Department of Community Health (DCH) took back revenue for Habilitation Supports Wavier (HSW) consumers that did not receive a HSW service in that month.
- Received less General Fund revenue.
- Some DCH and Federal Grants were not renewed.
- Interest from bank accounts continued to decrease.
- Internal Services Fund was transferred to the Preferred Inpatient Health Plan.

MCMHA's change in capital assets.

- Additional phone equipment was purchased during the fiscal year.
- Additional copier equipment is being purchased through a lease over the next five years.

Overview of the Financial Statements

Two types of financial statements are provided: Government-wide and Fund Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of MCMHA's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. MCMHA, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds have a narrower focus than that of government-wide financial statements in that the focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary funds are internal service funds, which are held as a self-insurance against future risk. These funds consist of State of Michigan Medicaid and General Funds and accumulated interest and must be held for future risk.

A crosswalk between government-wide and fund statements is included as Appendix A to this discussion. By comparing the two types of statements, the reader may better understand the long-term impact of the organization's immediate year decisions.

Comparison With Prior Year

This is the third year MCMHA has reported under GASB 34, the comparison with the prior year is attached in Appendix B.

About the Future

The State of Michigan has not given the Mental Health system a final budget. This should be finalized during the 2005 fiscal year. This new budget will impact Fiscal years 2005 and 2006. At this time we cannot estimate the impact of the final budget on our services. However, as we look forward, we will be examining the services we deliver and the ways in which we deliver them to determine where costs may be contained or reduced and where revenues may be enhanced, including Administrative costs. As part of our effort to reduce Administrative overhead, MCMHA is exploring a new Financial/Human Resources/Payroll software package. MCMHA is also moving to a web based client information system that will include an electronic clinical record. We are moving toward automation of information as much as possible for efficiencies.

MCMHA is also exploring additional revenue enhancements. This could include enrolling with other insurances and becoming a child-placing agency.

The Medicaid dollars for Monroe County Medicaid eligibles are coming to MCMHA from Washtenaw Community Health Organization (WCHO) according to the terms of the Preferred Inpatient Health Plan agreement between WCHO and Michigan Department of Community Health. This relationship is expected to continue according to the terms in that agreement. Medicaid revenue has decreased because of the use of an affiliation intensity factor verses MCMHA intensity factor from previous years.

Appendix A
Government-Wide Statement of Assets and Funds Statements

	Government Wide	Governmental Funds	Proprietary Fund (ISF)	General Fixed Assets	General Long-term Debt
Assets					
Current Assets					
Cash in Bank	7,716,919	7,716,919			
Accounts Receivable, Net	449,908	449,908			
Due From Other Governmental Units	581,397	581,397			
Prepaid Expenses	87,453	87,453			
Restricted Assets	311,414		311,414		
Total Current Assets	9,147,091				
Noncurrent Assets					
Capital Assets, Land	54,000			54,000	
Capital Assets - Depreciable, Net	829,243			829,243	
Total Noncurrent Assets	883,243			883,243	
Total Assets	10,030,334	8,835,677	311,414	883,243	-
Liabilities					
Current Liabilities					
Accounts Payable	625,287	625,287			
Accounts Payable - Cost Settlement	608,669	608,669			
Accrued Payroll And Fringes	268,884	268,884			
Due To Other Governmental Units	1,428,887	1,168,751	260,136		
Deferred Revenue	377,255	377,255			
Capital Lease	5,966				5,966
Total Current Liabilities	3,314,948	3,048,846			5,966
Noncurrent Liabilities					
Capital Lease	17,899				17,899
Compensated Absences	210,237				210,237
Total Noncurrent Liabilities	228,136				228,136
Total Liabilities	3,543,084	3,048,846	260,136	-	234,102
Net Assets					
Invested In Capital Assets, Net Of Related Debt	859,378			883,243	
Reserved For Risk Management	51,278		51,278		
Reserved For Prepaid Expenses		87,453			
Reserved For Compensated Absences					
Internal Service Fund					
Unreserved	5,576,594	5,699,378			
Total Net Assets	6,487,250	5,786,831	51,278	883,243	
Total Liabilities and Fund Balances		8,835,677	311,414	883,243	

Appendix B
Prior Year Comparison

	2003 TOTAL	INCREASE (DECREASE)	2004 TOTAL
Assets			
Current Assets			
Cash in Bank	7,186,098	530,821	7,716,919
Accounts Receivable, Net	263,828	186,080	449,908
Due From Other Governmental Units	104,031	477,366	581,397
Prepaid Expenses	511,428	(423,975)	87,453
Restricted Assets	1,452,808	(1,141,394)	311,414
Total Current Assets	9,518,193	(371,102)	9,147,091
General Fixed Assets	1,018,562	(135,319)	883,243
Total Assets	10,536,755	(506,421)	10,030,334
Liabilities			
Accounts Payable	1,026,498	207,458	1,233,956
Deferred Revenue	1,094,288	(717,033)	377,255
Due To Other Governmental Units	1,370,824	58,063	1,428,887
Accrued Payroll And fringes	235,233	33,651	268,884
Compensated Absences	210,904	(667)	210,237
Capital Lease	-	23,865	23,865
Total Liabilities	3,937,747	(394,663)	3,543,084
Net Asset			
Investment in General Fixed Assets, Net of Debt	1,018,562	(159,184)	859,378
Internal Service Funds	307,330	(256,052)	51,278
Unrestricted Fund Balance	5,273,116	303,478	5,576,594
Fund Balance without General Fixed Assets	5,580,446	47,426	5,627,872
Total Net Assets	6,599,008	(111,758)	6,487,250
Total Liabilities and Net Assets	10,536,755	(506,421)	10,030,334

Appendix B
Prior Year Comparison

	2003 TOTAL	INCREASE (DECREASE)	2004 TOTAL
REVENUES			
State Grants			
Department of Community Health Contract	5,012,863	(951,720)	4,061,143
Adult Benefit Waiver	-	346,870	346,870
Title XX	8,874	-	8,874
Other State Revenue	16,205	256	16,461
Total State Grants	5,037,942	(604,594)	4,433,348
Federal Grants	411,038	(12,385)	398,653
County Appropriations	997,803	-	997,803
Charges for Services			
Medicaid - DCH Contract/PIHP	18,251,527	(885,600)	17,365,927
Medicaid	86,866	204,600	291,466
Earned Revenue	258,078	2,700	260,778
Total Charges for Services	18,596,471	(678,300)	17,918,171
Interest			
Rents	88,972	(1,153)	87,819
Other Revenues	3,320	(2,920)	400
Total Revenues	25,160,202	(1,299,352)	23,859,905
EXPENDITURES			
Personnel Costs	7,619,082	639,041	8,258,123
Operating Costs	17,196,772	(1,999,084)	15,197,688
Capital Outlay	63,784	(17,262)	46,522
Debt Service	-	5,966	5,966
Total Expenditures	24,879,638	(1,377,305)	23,508,299
Excess of Revenues Over (Under) Expenditures	280,564	77,953	351,606

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Monroe Community Mental Health Authority
Statement Of Net Assets
September 30, 2004 and 2003

	Governmental Activities	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$7,716,919	\$7,186,098
Accounts receivable, net	449,908	263,828
Due from other governmental units	581,397	104,031
Prepaid items	87,453	511,428
Total current assets	8,835,677	8,065,385
Noncurrent assets		
Cash and cash equivalents - restricted	311,414	1,452,808
Capital assets - depreciable, net	829,243	964,562
Capital assets - land	54,000	54,000
Total noncurrent assets	1,194,657	2,471,370
Total assets	10,030,334	10,536,755
Liabilities		
Current liabilities		
Accounts payable	1,233,956	1,026,498
Accrued wages and other payroll liabilities	268,884	235,233
Due to other governmental units	1,428,887	1,370,824
Deferred revenue	377,255	1,094,288
Current portion of capital leases payable	5,966	-
Total current liabilities	3,314,948	3,726,843
Noncurrent liabilities		
Capital leases payable, net of current portion	17,899	-
Compensated absences	210,237	210,904
Total noncurrent liabilities	228,136	210,904
Total liabilities	3,543,084	3,937,747
Net Assets		
Invested in capital assets, net of related debt	859,378	1,018,562
Restricted for risk management	51,278	307,330
Unrestricted	5,576,594	5,273,116
Total net assets	\$6,487,250	\$6,599,008

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement of Activities
For The Year Ended September 30, 2004 and 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$23,897,121</u>	<u>\$17,918,171</u>	<u>\$5,853,915</u>	<u>(\$125,035)</u>	<u>\$26,582</u>
General revenues					
Unrestricted investment earnings				87,819	88,972
Restricted investment earnings				4,084	22,152
Total general revenues				<u>91,903</u>	<u>111,124</u>
Change in net assets				(33,132)	137,706
Net assets - beginning of year				6,599,008	7,663,016
Prior period adjustments				<u>(78,626)</u>	<u>(1,201,714)</u>
Net assets - end of year				<u>\$6,487,250</u>	<u>\$6,599,008</u>

The Notes to the Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Monroe Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2004 and 2003

	General Fund	
	2004	2003
Assets		
Cash and cash equivalents	\$7,716,919	\$7,186,098
Accounts receivable, net	449,908	263,828
Due from other governmental units	581,397	104,031
Due from other funds	-	1,145,478
Prepaid items	87,453	511,428
Total Assets	<u>\$8,835,677</u>	<u>\$9,210,863</u>
Liabilities		
Accounts payable	\$1,233,956	\$1,026,498
Accrued wages and other payroll liabilities	268,884	235,233
Due to other governmental units	1,168,751	1,370,824
Deferred revenue	377,255	1,094,288
Total liabilities	<u>3,048,846</u>	<u>3,726,843</u>
Fund balances		
Reserved for prepaid items	87,453	511,428
Unreserved	5,699,378	4,972,592
Total fund balances	<u>5,786,831</u>	<u>5,484,020</u>
Total liabilities and fund balances	<u>\$8,835,677</u>	<u>\$9,210,863</u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Reconciliation Of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement Of Net Assets
For The Year Ended September 30, 2004

Total fund balance - governmental funds	\$5,786,831
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add: capital assets	2,297,323
Deduct: accumulated depreciation	(1,414,080)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	51,278
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Some liabilities are not due and payable in the current period and
therefore are not reported in the funds. Those liabilities consist of:

Deduct: Capital leases payable	(23,865)
Deduct: Compensated absences	<u>(210,237)</u>

Net assets of governmental activities	<u><u>\$6,487,250</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended September 30, 2004 and 2003

	General Fund	
Revenues	2004	2003
State grants		
Department of community health contract	\$4,061,143	\$5,012,863
Adult benefit waiver	346,870	-
Title XX	8,874	8,874
Other state revenues	16,461	16,205
Total state grants	4,433,348	5,037,942
Federal grants	398,653	411,038
Contributions - local units		
County appropriations	997,803	997,803
Charges for services		
Medicaid - Washtenaw CMH contract	17,365,927	18,251,527
Medicaid - other	291,466	86,866
Client and third party pay	93,995	79,291
Other earned contract revenue	166,783	178,787
Total charges for services	17,918,171	18,596,471
Interest and rents		
Interest	87,819	88,972
Rents	23,711	24,656
Total interest and rents	111,530	113,628
Other revenues	400	3,320
Total revenues	23,859,905	25,160,202

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended September 30, 2004 and 2003

	General Fund	
	2004	2003
Expenditures		
Health & Welfare - Mental Health		
Current:		
Personnel costs	\$8,258,123	\$7,619,082
Operating expenditures	15,197,688	17,196,772
Capital outlay	46,522	63,784
Debt service	5,966	-
Total expenditures	23,508,299	24,879,638
Revenues over (under) expenditures	351,606	280,564
Other Financing Sources (Uses)		
Operating transfers in (out)	-	1,355,723
Capital lease proceeds	29,831	-
Total other financing sources	29,831	1,355,723
Excess Of Revenues And Other Sources		
Over Expenditures And Other Uses	381,437	1,636,287
Fund balance, beginning of year	5,484,020	4,876,980
Prior period adjustments	(78,626)	(1,029,247)
Fund balance, end of year	\$5,786,831	\$5,484,020

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended September 30, 2004

Net change in fund balances - total governmental funds	\$381,437
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: capital outlay	46,522
Deduct: depreciation expense	(181,841)

Lease payments on capital lease obligations are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term capital leases payable).

5,966

Fixed assets acquired by capital leases are shown as an expenditure and other other financing source in the governmental funds. The other financing source must be removed from the statement of activities; lease payments are applied to the long term liability; interest expense is recognized as it accrues.

(29,831)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add: net revenue (expense) from governmental internal service fund	(256,052)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrual for compensated absences	667
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Change in net assets of governmental activities

(\$33,132)

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Net Assets
Proprietary Funds
September 30, 2004 and 2003

	<u>Internal Service Funds</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	<u>\$311,414</u>	<u>\$1,452,808</u>
Liabilities		
Due to General Fund	-	\$1,145,478
Due to other governmental units	\$260,136	-
Net Assets		
Restricted	<u>51,278</u>	<u>307,330</u>
Total liabilities and net assets	<u>\$311,414</u>	<u>\$1,452,808</u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Revenues, Expenses And Changes In Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2004 and 2003

	<u>Internal Service Funds</u>	
	<u>2004</u>	<u>2003</u>
Non-operating revenues (expense)		
Interest income	<u>\$4,084</u>	<u>\$22,152</u>
Operating transfers		
Transfers to General Fund	-	(1,355,723)
Transfers to other governmental units	<u>(260,136)</u>	<u>-</u>
Change in net assets	(256,052)	(1,333,571)
Net assets, beginning of year	<u>307,330</u>	<u>1,640,901</u>
Net assets, end of year	<u><u>\$51,278</u></u>	<u><u>\$307,330</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2004 and 2003

	<u>Internal Service Funds</u>	
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities	-	-
Cash flows from noncapital financial activities		
Operating transfers out - other funds	(\$1,145,478)	(\$210,245)
Cash flows from investing activities		
Proceeds from interest earnings	<u>4,084</u>	<u>22,152</u>
Net increase (decrease) in cash	(1,141,394)	(188,093)
Cash and cash equivalents, October 1	<u>1,452,808</u>	<u>1,640,901</u>
Cash and cash equivalents, September 30	<u><u>\$311,414</u></u>	<u><u>\$1,452,808</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	<u>-</u>	<u>-</u>
Net cash used by operating activities	<u><u>-</u></u>	<u><u>-</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Fiduciary Net Assets
September 30, 2004 and 2003

		<u>Post-employment Benefits</u>	
		<u>2004</u>	<u>2003</u>
Assets			
Investments		<u>\$1,593,791</u>	<u>\$1,570,215</u>
Liabilities		-	-
Net Assets			
Restricted		<u>\$1,593,791</u>	<u>\$1,570,215</u>

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Changes in Fiduciary Net Assets
For The Year Ended September 30, 2004 and 2003

	<u>Post-employment Benefits</u>	
	<u>2004</u>	<u>2003</u>
Investment Earnings		
Net increase (decrease) in fair value of investments	<u>\$112,125</u>	<u>\$61,008</u>
Total additions	112,125	61,008
Deductions		
Benefits	(77,967)	(54,800)
Administrative and general expenses	<u>(10,582)</u>	<u>(10,176)</u>
Total deductions	<u>(88,549)</u>	<u>(64,976)</u>
Change in net assets	23,576	(3,968)
Net assets, beginning of year	<u>1,570,215</u>	<u>1,574,183</u>
Net assets, end of year	<u><u>\$1,593,791</u></u>	<u><u>\$1,570,215</u></u>

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Monroe Community Mental Health Authority
Notes To The Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Monroe Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The significant changes included in Statement No. 34 include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Authority’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority’s activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

A. Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Monroe County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority’s reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Monroe Community Mental Health Authority
Notes To The Financial Statements

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at September 30, 2004, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Any revenues not meeting this definition are reported as non-operating revenues. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any expenses not meeting this definition are reported as non-operating expenses.

Fiduciary Funds - Pension Trust Funds - These funds account for assets for which the Authority is responsible as a trustee under the employee's retirement plan. These funds are custodial in nature and recognize assets and liabilities on an accrual basis. The financial statements for these funds use the economic resources measurement focus for reporting. The government-wide financial statements do not include the Fiduciary Funds because its resources are not available to support the Authority's programs.

Monroe Community Mental Health Authority
Notes To The Financial Statements

D. Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

E. Fund Accounting

The Authority reports the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

F. Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

G. Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Monroe Community Mental Health Authority
Notes To The Financial Statements

H. Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

I. Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan and local counties.

J. Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Monroe Community Mental Health Authority
Notes To The Financial Statements

L. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Authority as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5-20
Automobiles	5
Buildings and Improvements	25
Land	Not Applicable – Not Depreciated

M. Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Monroe Community Mental Health Authority
Notes To The Financial Statements

N. Compensated Absences

The Authority allows employees to carryover into the following year, any unused, paid time off, up to a maximum of 216 hours. All regular full time employees accrue annual leave on a monthly basis. Amounts accrued vary depending on the employee's length of service with the Authority. Upon termination of employment, annual leave balances are paid at the current rate of pay. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated compensated absences as a liability.

O. Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance not available for appropriation for expenditure.

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. Formal budgetary integration is employed as a management control device during the year. The Authority does not maintain a formalized encumbrance accounting system.

B. Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, the Authority incurred expenditures in excess of the amounts appropriated as shown on page 28 of this report as unfavorable variances.

Monroe Community Mental Health Authority
Notes To The Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and investments are as follows:

	2004	2003
Petty Cash	\$3,328	\$4,324
Checking and savings accounts	8,025,005	8,634,582
Totals	\$8,028,333	\$8,638,906

At September 30, 2004, the carrying amount of the Authority's cash deposits was \$8,025,005 and the bank balance was \$8,112,673. Of the bank balance, \$200,000 was covered by federal depository insurance and the remaining was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of cash and cash equivalents as shown on the Statement of Net Assets follows:

	2004	2003
Cash and cash equivalents – current assets	\$7,716,919	\$7,186,098
Cash and cash equivalents – restricted assets	311,414	1,452,808
Total	\$8,028,333	\$8,638,906

B. Due From Other Governmental Units

As of September 30, this receivable consisted of the following:

	2004	2003
Michigan Department of Community Health – Various Federal Grants	\$205,545	\$83,988
Other governmental units	-	20,043
County of Monroe	375,852	-
Total	\$581,397	\$104,031

Monroe Community Mental Health Authority
Notes To The Financial Statements

C. Capital Assets

Capital assets activity for the year ended September 30, 2004 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Equipment and Furnishings	\$751,028	\$16,691	\$-	\$767,719
Automobiles	752,941	-	-	752,941
Buildings and Improvements	692,832	-	-	692,832
Land	54,000	-	-	54,000
Capital Lease Obligations	-	29,831	-	29,831
Sub-totals	2,250,801	46,522	-	2,297,323
Accumulated Depreciation	(1,232,239)	(181,841)	-	(1,414,080)
Totals	\$1,018,562	(\$135,319)	\$-	\$883,243

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

D. Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

E. Due To Other Governmental Units

As of September 30, this liability consists of the following:

	2004	2003
Washtenaw CMH – Medicaid Lapse	\$120,883	\$423,665
Washtenaw CMH – Transfer of Medicaid portion of Internal Service Fund	260,136	-
MDCH – 2002/2003 Cost Settlement	928,688	235,188
MDCH – 2001/2002 Cost Settlement	-	563,330
MDCH – Inpatient Liability	119,180	148,641
Total	\$1,428,887	\$1,370,824

Monroe Community Mental Health Authority
Notes To The Financial Statements

F. Deferred Revenue

As of September 30, this liability includes the following items:

	2004	2003
General Fund Carry Over – MDCH Grant	\$236,788	\$255,545
Medicaid Savings – 2002 FY Grant	-	679,298
Title IV E	140,467	159,445
Totals	\$377,255	\$1,094,288

G. Long Term Liabilities

H. Capital Lease Obligations

The Authority has long-term noncancelable capital leases with Ervin Leasing to finance the acquisition of Sharp Copiers. The leases qualify as capital leases for accounting purposes as defined under the Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*, and therefore have been recorded at the future minimum lease payments at the date of inception of the leases. Future minimum lease payments to be made from unrestricted revenues of the general fund under these capital leases are as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2005	\$5,966
2006	5,966
2007	5,966
2008	5,967

The changes in long term liabilities during the 2004 fiscal year are as follows:

Governmental Activities	Beginning Balance	Additions	Decreases	Ending Balance
Compensated Absences	\$210,904	-	\$667	\$210,237
Capital Leases	-	\$29,831	5,966	23,865

Monroe Community Mental Health Authority
Notes To The Financial Statements

I. Operating Leases

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

At September 30, the Authority was committed, subject to cancellation provisions, for rental payments under operating leases as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2005	\$618,132
2006	468,460
2007	53,856
2008	5,966
2009 & Future Years	994

4. OTHER INFORMATION

A. Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$5,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000,000 for property and crime. The contribution made by the Authority to the MMRMA was \$113,185 for the period July 1, 2003 to July 1, 2004.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Internal Service Funds

The Authority has established an Internal Service Fund to cover the risk of overspending the Managed Care Specialty Services Program contract. This contract provides for the use of Department of Community Health funding for the establishment of Internal Service Funds.

Expenditures from the Internal Service Funds will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

B. Retirement Plan

Employees of the Authority are participants in the Monroe County Employees Retirement System. The County has a single-employer defined benefit pension plan covering substantially all of its employees.

Funding Policy – The plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Periodic employer contributions to the pension plan are determined on an actuarial basis using an entry age actuarial funding method. Normal cost is funded on a current basis. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over future periods.

Employees of the Authority do not contribute to this plan.

Additional information regarding this retirement plan can be obtained by contacting the County of Monroe, Michigan.

C. Social Security Opt Out Retirement Plan

On January 1, 1997, the Authority became a separate legal entity when it became the Monroe Community Mental Health Authority. As a new governmental entity, its employees did not automatically receive social security coverage. For new governmental entities, if employees are covered under a qualifying retirement plan, FICA is not required. Medicare coverage is required. The Authority's employees must vote to request social security coverage.

During the year ended September 30, 1999, the Authority's employees voted to elect out of the social security system and provide for employer and employee contributions to a money purchase pension plan. This election out of the social security system applies only to full time employees of the Authority. All other employees remain within the social security system.

Monroe Community Mental Health Authority
Notes To The Financial Statements

Employee contributions to this plan are at the rate of 6.2% of gross wages; employer contributions to this plan are at the rate of 5.0% of gross wages. Under this plan, all contributions are immediately vested with the employee.

During the year ended September 30, 2004 and 2003, the Authority contributed \$300,064 and \$281,287, respectively, to this plan.

D. Post Employment Benefits

The Authority provides certain post employment health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Authority. The Authority shall provide retirees who are receiving benefits from its retirement plan medical insurance coverage. To qualify, an individual must be employed by the Authority at the time of retirement. When the retired employee attains the age of sixty-five years, the Authority's contribution shall be supplementary to Medicare Part B. The Authority also is required to provide certain medical insurance coverage to the retiree's spouse and dependent children.

Participants employed prior to January 1, 1996 shall not be required to contribute to this plan. Participants employed on or after this date shall be required to contribute 1.5% of their wages to this plan.

E. Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

F. Related Party Transactions

The Authority leases its Raisinsville Road facility from the Monroe County Municipal Building Authority. The lease agreement dated May 21, 1987 provides for annual lease payments of \$284,316 and expires August 15, 2006.

The County of Monroe provides \$997,803 in County match funds each fiscal year.

Monroe Community Mental Health Authority
Notes To The Financial Statements

G. Prior Period Adjustments

At September 30, 2003, prior period adjustments in the fund financial statements consist of the following: 1) \$1,201,713 which represents a difference between the fiscal year 2002 cost settlement report and financial statements, and 2) \$172,467 which represents long term debt included in the 2002 fund financial statements. The \$172,467 was not included in the prior period adjustments of the government-wide financial statements.

At September 30, 2004, prior period adjustments in the fund financial statements consist of the following: 1) \$81,787 which represents additional Medicaid carryforward dollars, and 2) (\$3,161) which represents an overpayment of state facility costs.

REQUIRED SUPPLEMENTAL INFORMATION

Monroe Community Mental Health Authority
Statement Of Revenues, Expenditures And Changes
In Fund Balance - Budget And Actual
General Fund
For The Year Ended September 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State grants				
Department of community health contract	\$5,223,487	\$4,984,892	\$4,061,143	(\$923,749)
Adult benefit waiver	-	353,430	346,870	(6,560)
Title XX	8,874	8,874	8,874	-
Other state revenues	16,324	16,324	16,461	137
Total state grants	5,248,685	5,363,520	4,433,348	(930,172)
Federal grants	426,672	407,048	398,653	(8,395)
Contributions - local units				
County appropriations	997,803	997,803	997,803	-
Charges for services				
Medicaid - Washtenaw CMH contract	17,953,693	18,478,593	17,365,927	(1,112,666)
Medicaid - other	131,351	237,879	291,466	53,587
Client and third party pay	71,607	71,607	93,995	22,388
Other earned contract revenue	171,272	171,272	166,783	(4,489)
Total charges for services	18,327,923	18,959,351	17,918,171	(1,041,180)
Interest and rents				
Interest	519,125	87,337	87,819	482
Rents	23,756	22,419	23,711	1,292
Total interest and rents	542,881	109,756	111,530	1,774
Other revenues	-	-	400	400
Total revenues	25,543,964	25,837,478	23,859,905	(1,977,573)

The Notes to the Financial Statements are an integral part of this statement.

Monroe Community Mental Health Authority
Statement Of Revenues, Expenditures And Changes
In Fund Balance - Budget And Actual
General Fund
For The Year Ended September 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Expenditures				
Health & Welfare - Mental Health				
Current:				
Personnel costs	\$8,310,382	\$8,381,279	\$8,258,123	\$123,156
Operating expenditures	17,233,582	17,456,199	15,197,688	2,258,511
Capital outlay	-	-	46,522	(46,522)
Debt service	-	-	5,966	(5,966)
Total expenditures	<u>25,543,964</u>	<u>25,837,478</u>	<u>23,508,299</u>	<u>2,329,179</u>
Revenues over (under) expenditures	-	-	351,606	351,606
Other Financing Sources (Uses)				
Capital lease proceeds	<u>-</u>	<u>-</u>	<u>29,831</u>	<u>29,831</u>
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	-	-	381,437	381,437
Fund balance, beginning of year	5,484,020	5,484,020	5,484,020	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(78,626)</u>	<u>(78,626)</u>
Fund balance, end of year	<u><u>\$5,484,020</u></u>	<u><u>\$5,484,020</u></u>	<u><u>\$5,786,831</u></u>	<u><u>\$302,811</u></u>

The Notes to the Financial Statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

MONROE COMMUNITY MENTAL HEALTH AUTHORITY
SUPPORTING SCHEDULE OF PERSONNEL COSTS
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

Governmental Fund Types

General Fund

	<u>2004</u>	<u>2003</u>
Personnel costs		
Salaries and wages	\$6,363,766	\$5,982,133
Fringe benefits	<u>1,894,357</u>	<u>1,636,949</u>
 Total personnel costs	 <u><u>\$8,258,123</u></u>	 <u><u>\$7,619,082</u></u>

The Notes to the Financial Statements are an integral part of this statement.

MONROE COMMUNITY MENTAL HEALTH AUTHORITY
SUPPORTING SCHEDULE OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2004 AND 2003

Governmental Fund Types

General Fund

	<u>2004</u>	<u>2003</u>
Operating expenditures		
Advertising	\$41,201	\$31,478
Communications	112,269	124,655
Contractual services	7,246,971	8,348,722
Housing expense	72,068	60,061
Inpatient / hospital expense	595,339	652,973
Insurance	97,409	347,838
Local funds contribution	483,969	483,969
Other	183,342	107,878
Rental expense - buildings and other	500,724	504,373
Rental expense - state leases	161,549	188,470
Repairs and maintenance	123,230	146,570
Residential home services	3,963,036	4,807,301
State facilities expense	498,203	517,217
Supplies and small equipment purchases	558,188	430,246
Training	142,000	83,901
Transportation and vehicle expense	241,241	219,288
Travel and conferences	92,585	68,904
Utilities	84,364	72,928
	<u> </u>	<u> </u>
Total operating expenditures	<u>\$15,197,688</u>	<u>\$17,196,772</u>

The Notes to the Financial Statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Monroe Community Mental Health Authority
Monroe, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Monroe Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

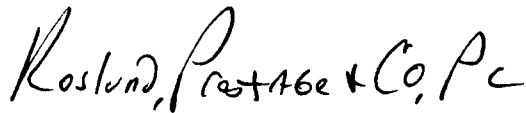
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority, in a separate letter dated December 3, 2004.

This report is intended for the information of the audit committee, management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 3, 2004



MANAGEMENT LETTER

Board of Directors
Monroe Community Mental Health Authority
Monroe, Michigan

In planning and performing our audit of the financial statements for Monroe Community Mental Health Authority for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 3, 2004, on the financial statements of Monroe Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 3, 2004

Perform a Fraud Risk Assessment

In light of the wave of notorious frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large companies. However, fraud occurs in companies of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small companies. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in companies with 10,000 or more employees.

Whereas the highly publicized frauds at large public companies like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small companies one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Authority perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

This assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.

Perform a Fraud Risk Assessment (continued)

- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.

Perform a Fraud Risk Assessment (continued)

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of Work Performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriations of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Perform Surprise Payroll Pay-outs

As a precaution against the use of fictitious employees, we recommend that the finance manager perform periodic surprise pay-outs at various locations of the Organization. This will require the finance manager to distribute pay checks to each employee and to verify identification. If an employee is sick or on vacation during the pay-out, that check should be held for the employee in a safe. When the employee returns, the check should be given by the finance manager to the employee.

Time Sheets

Since time sheets are one of the source documents supporting the Authority's labor expense, we recommend that all employees be required to sign time sheets and submit them to their supervisor or manager for approval. The supervisors or managers should also sign each time sheet indicating review and approval of hours worked. The supervisors or managers should also be responsible for obtaining the cards from employees and submitting them to the human resources director in a timely manner.

Review Payroll Records for Unusual Matters

Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person independent of the payroll department periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.